

SUMMIT POINTE
Community Mental Health Authority
Financial Statements
September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Summit Pointe	County Calhoun
Audit Date 9/30/04	Opinion Date 1/28/05	Date Accountant Report Submitted to State: 3/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue		City Alma	State MI
Accountant Signature <i>Roslund Prestage & Company, P.C.</i>		ZIP 48801	Date 3/22/05

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INDEPENDENT AUDITOR'S REPORT

Summit Pointe
Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Summit Pointe, as of and for the year ended September 30, 2004, which collectively comprise Summit Pointe's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Summit Pointe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Summit Pointe as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 28, 2005 on our consideration of Summit Pointe's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-X, and budgetary comparison information on pages 27-28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

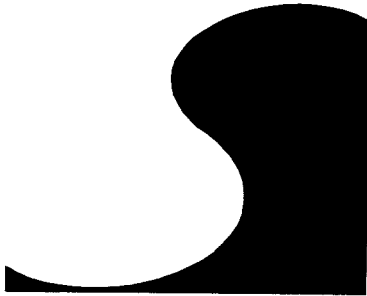
Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Summit Pointe's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of Summit Pointe. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 28, 2005

**MANAGEMENT DISCUSSION
AND ANALYSIS**



SUMMIT POINTE

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

Management of Calhoun County Community Mental Health Authority (CMHA), also known as Summit Pointe, presents the following discussion and analysis of financial activities during fiscal year 2003/2004. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify material changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

Beginning October 1, 2002, the Medicaid funds for Barry, Berrien, Branch, Calhoun, and Van Buren counties were paid to Summit Pointe. Summit Pointe entered into a contract with Michigan Department of Community Health (MDCH) to administer the above Medicaid funds for behavioral health services. Summit Pointe continued to operate as Prepaid Inpatient Health Plan (PIHP) in fiscal year 2003/2004. Summit Pointe Board delegated the administration of regional Medicaid contract to Venture Administrative Board. Venture Administrative Board consists of two voting members from each of the five member counties and operates under the terms of the Intergovernmental Agreement for the Transfer of Functions and Responsibilities (ITRFA).

Venture Administrative Board set up a goal to become a successful benefits manager. To achieve this goal the organization was able to ensure the following mega ends statements:

- Accessibility (plan members are aware of, seek and are connected to the right service at the right time in the right location);
- Acceptability (plan members are satisfied with the processes and outcomes of the health care-seeking and health care-receiving activities they experience);
- Impact (plan members experience improvements in their quality of life, symptoms and functioning);
- Value (stakeholders, the MDCH, the wider community, and taxpayers benefit from the positive gains in individual and population health achieved);
- Risk Management (PIHP and its owners are prepared for, reduce the likelihood of, and suffer no critical consequences of any type, including fiscal, quality, public perception or legal).

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

Summit Pointe continued to contract with the MDCH for the State General Fund services for indigent residents of Calhoun County. Summit Pointe also continued to provide behavioral health services to other segments of population. First and third party payors, contractual agreements and other non-MDCH sources of income accounted for 15.7% of Summit Pointe revenues as a Host Board.

FINANCIAL HIGHLIGHTS

Venture PIHP was able to achieve its financial goals in fiscal year 2003/2004. Regional Medicaid revenues exceeded expenditures by \$1.3 million. These funds will be spent on supports and services to Medicaid eligible customers in fiscal year 2005. Specialty Managed Care Services Internal Service (Risk Reserve) Fund (ISF) remained stable at \$4.2 million. The ability to fund ISF at the maximum allowable level (per the MDCH contract, 7.5% of Medicaid revenues) demonstrates prudent risk management strategy.

Summit Pointe as a Host Board generated surplus of General fund of \$96 thousand or 1.5% of General fund revenues. These funds will be spent on supports and services to indigent customers in fiscal year 2005. General Fund Formula Services ISF decreased by \$56 thousand and reached \$512 thousand or 7.5% of General Fund revenues (maximum allowable per the MDCH contract). Summit Pointe had to abate funds because of the contractual limit for ISF. Local funds (patient service revenues, interest income, and other) exceeded local match obligations by \$999 thousand. Local match surplus contributed to the increase of unrestricted fund balance.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

The statement of net assets includes all of the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to the prior year annual financial reports.

Fund financial statements are divided into two categories. These are special revenue fund financial statements and proprietary fund financial statements.

Special revenue fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

FINANCIAL POSITION

Key financial indicators of Summit Pointe are presented in Table 1.

	<u>Sep-04</u>	<u>Sep-03</u>	Dun & Bradstreet Industry Benchmarks	
			<u>Upper Quartile</u>	<u>Median</u>
<u>Self-Sufficiency</u>				
Net Income Margin, %	2.1	5.3	5.4	2.7
Return on Assets (annualized), %	5.9	15.1	9.1	3.9
Net Income as % of Fund Balance	9.5	18.2	24.3	5.7
<u>Financial Stability</u>				
Current Assets to Current Liabilities	1.9	4.4	4.6	2.1
Total Liabilities to Fund Balance	0.60	0.20	0.27	0.7
Fixed Assets to Fund Balance	0.11	0.08	0.34	0.69
Cash Available for Fund Balance, %	71.7	69.6	N/A	N/A
<u>Efficiency</u>				
Days in Accounts Receivable	123	80	27	41
Days in Accounts Payable	27	13	5	10
Revenues to Net Working Capital	8.0	4.0	13.2	3.9
Revenues to Assets	2.8	2.7	1.9	1.5

Current financial ratios are compared with financial indicators for the last fiscal year and industry statistics (upper quartile and median). Dun & Bradstreet provided benchmarks for the specialty outpatient clinics industry.

Implementation of a number of reinvestment initiatives and state wide Medicaid rebasing contributed to the decrease of current year operating margins. Net income margin decreased by 3.2 percentage points and reached 2.1%. Our net income margin is 0.6 percentage points below the industry median. However, we believe that Summit Pointe will benefit from reinvestment initiatives in fiscal years 2005 and 2006. We expect long-term positive effect on cost effectiveness and efficiency of operations and quality of services.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

Financial stability indicators prove that Summit Pointe has sufficient reserves and is able to meet its current and long-term obligations. Detailed analysis of changes in Fund Balance is presented in Table 2. Summit Pointe has cash and cash equivalents available to cover 71.7% of unrestricted fund balance. This ratio increased from 69.6 % and 63.8% as of the end of September 2003 and 2002 respectively.

Cash coverage of the fund balance at more than seventy percent demonstrates the agency's financial stability. Substantial increase of this ratio is attributable to effective cash management. The ratio of current assets over current liabilities (current ratio) of 1.9 is lower than that in September 2003 by 56.8%. It's 9.5% below industry median statistics. Decrease of current ratio was attributable to the increase in current liabilities due to more precise and conservative estimates of claims payable. Current ratio of 1.9 demonstrates our solid liquid position. Overall, the "quality" of the agency's unrestricted fund balance number remains high.

Table 2

Statement of Changes in Fund Balance

	Balance at 10/1/2003	Increase (Decrease)	Balance at 9/30/2004
Special Revenue Fund			
Restricted for Community Reinvestment	4,178,365	(2,920,903)	1,257,462
Restricted for Capital Purposes	1,640,603	(5,948)	1,634,655
Unrestricted	6,824,813	998,985	7,823,798
Total Special Revenue Fund	<u>12,643,781</u>	<u>(1,927,866)</u>	<u>10,715,915</u>
Internal Service Fund			
Medicaid	4,230,120	17,296	4,247,416
General Fund	567,993	(55,789)	512,204
Total Internal Service Fund	<u>4,798,113</u>	<u>(38,493)</u>	<u>4,759,620</u>
Grand Total Fund Balance	<u>17,441,894</u>	<u>(1,966,359)</u>	<u>15,475,535</u>

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

Significant decrease in the fund balance restricted for community reinvestment is attributable to implementation of reinvestment projects. Large portion of these funds were used for benefit stabilization. Increase in Medicaid ISF is attributable to interest income and transfers of prior year ISF from Mid South Substance Abuse Coordinating Agency. Fund balance restricted for capital purposes decreased due to depreciation. Summit Pointe acquired \$456 thousand of capital assets in fiscal year 2004. Summit Pointe did not have long-term debt as of September 30, 2004.

The unrestricted fund balance and internal service fund represent an estimated 65 days of operations based on the actual expenses for fiscal year 2004.

SUMMARY OF ACTIVITIES

Total revenues for the fiscal year 2004 were equal to \$68.9 million or 100.1% of the budget. Total expenditures (excluding community reinvestment) were equal to \$67.4 million or 101.2% of the budget. Excess of revenues over expenditures of \$1,473 thousand was below the budget amount of \$1,568 thousand by 6.1%.

Prior year revenues comparison is presented in Table 3.

Medicaid specialty supports and services revenue represents 82.2% of total revenue and decreased \$19 thousand or 0.03% compared to the prior year. A significant increase in the number of Medicaid eligible persons was offset by the decrease in capitation rates.

State general fund priority population revenue (formula funding) represents 9.1% of total revenue and decreased \$609 thousand or 8.9% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide the supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Unspent current year funds of \$96 thousand are not included in current revenue and are shown as deferred revenue available for the next year. There was no lapse of state general funds to MDCH in the current fiscal year. Decrease in General fund revenues was offset by Adult Benefit Waiver revenues – new program offered by the State of Michigan.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

Program service revenue includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These funds represent 2.0% of total revenue and have increased \$97 thousand or 7.4% over the prior year. Revenue diversification remains one of our top priorities. Marketing campaign, outpatient clinic business restructuring, implementation of evidence based best clinical practices and alternative outcome based compensation system for clinicians are under way and should ensure an increase in program service revenues in fiscal year 2005.

Grants and special designated revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 0.7% of total revenue and have increased \$185 thousand or 57.1% over the prior year. Significant growth was attributable to the increase in OBRA services and new grant to fund consumer run recovery center.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 0.7% of total revenue and have increased \$11 thousand or 2.3% over the prior year. All of the increase in this source of revenue is attributable to interest income.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

Table 3

Revenues Analysis

For the years ended September 30, 2004 and 2003

	Fiscal Year 2004		Fiscal Year 2003	
Capitation Revenue				
Medicaid	56,632,218	82.2%	56,651,023	81.8%
General Fund	6,264,251	9.1%	6,873,834	9.9%
Adult Benefit Waiver	843,544	1.2%	-	0.0%
MI Child	22,751	0.0%	20,237	0.0%
Total Capitation Revenue	63,762,764	92.5%	63,545,094	91.8%
Special and Designated Funds				
OBRA PASSAR Evaluations	227,610	0.3%	158,661	0.2%
MIFPI	46,635	0.1%	41,745	0.1%
HHAP/PATH Housing Assistance	45,120	0.1%	42,399	0.1%
HUD	72,920	0.1%	69,815	0.1%
Consumer Run Recovery Center	73,437	0.1%	-	0.0%
Respite-Tobacco Tax	43,492	0.1%	11,020	0.0%
Total Special and Designated Funds	509,214	0.7%	323,639	0.5%
Local Funding				
County Appropriation	265,000	0.4%	265,000	0.4%
Earned Contracts and Other Revenue				
Contract Revenue	2,157,275	3.1%	1,691,733	2.4%
Net Patient Service Revenue	1,407,944	2.0%	1,310,093	1.9%
Interest Income	220,147	0.3%	209,447	0.3%
Rent Income	134,930	0.2%	170,130	0.2%
Miscellaneous	455,068	0.7%	1,703,094	2.5%
Total Earned Contracts and Other Revenue	4,375,364	6.3%	5,084,497	7.3%
Total Revenue	68,912,342	100.0%	69,218,231	100.0%

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

Total expenditures as percent (%) of revenues are presented in Table 4. Overall, total expenditures increased from 94.7% to 97.9% of total revenues. Significant savings were achieved in inpatient, residential, and community support services at Summit Pointe. It reflects our efforts to implement alternative service delivery models that resulted in increased customer satisfaction and decreased expenditures. Our agency is oriented for achieving best value and makes sure that the increase in cost efficiency and quality of services compliment each other. However, the share of Medicaid expenditures incurred at Affiliates increased from 54.9% to 57.5% of total revenues.

Table 4

Expenditures Analysis

For the years ended September 30, 2004 and 2003

	Fiscal Year 2004		Fiscal Year 2003	
Total Revenues	68,912,341	100.0%	69,218,231	100.0%
Total Expenditures (Excluding Community Reinvestment)	67,439,280	97.9%	65,520,055	94.7%
Inpatient Services	1,821,430	2.6%	1,896,765	2.7%
Residential Services	4,976,662	7.2%	5,460,579	7.9%
Supportive and Other Services	3,510,130	5.1%	3,402,645	4.9%
Medicaid Supports & Services Incurred at Affiliates	39,591,766	57.5%	37,978,097	54.9%
External Healthcare Expenses, Total	49,899,988	72.4%	48,738,086	70.4%
Contract Programs	924,206	1.3%	730,296	1.1%
Client Support	2,438,785	3.5%	2,304,453	3.3%
Salaries and Fringes	5,637,224	8.2%	5,243,671	7.6%
Clinical Contracts	1,699,084	2.5%	1,792,027	2.6%
Contract Consultants	2,808,281	4.1%	2,731,972	3.9%
Community Education	256,076	0.4%	534,673	0.8%
Employee Development	577,268	0.8%	370,184	0.5%
Facilities	1,462,400	2.1%	1,442,365	2.1%
Local Funds Paid to DCH	1,110,749	1.6%	1,110,749	1.6%
General & Administrative	527,881	0.8%	407,838	0.6%
Miscellaneous	97,338	0.1%	113,741	0.2%

Personnel expense increased by 2.8% and reached \$7.3 million. Research and development expenditures also increased by 2.8%. Summit Pointe spent a little bit over \$2.8 million for these purposes. Local funds paid to DCH remained constant at \$1.1 million.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2004

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look good. The MDCH has undertaken the process to re-base the rates for Medicaid capitation payments. Management expects decrease in Medicaid revenues in fiscal years 2005 and 2006. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of Summit Pointe is currently healthy, many challenges lie ahead. We understand the necessity to continue our innovative approaches to service delivery and community involvement. We will focus on implementing evidence based clinical practices, expanding natural supports for our customers, improving integration with primary care physicians, developing youth and senior prevention programs. One of the main strategic goals in fiscal year 2005 will be continuing refinement of uniform benefit across Venture Affiliation, realization of shared efficiencies with our partners, and revenue diversification. Customers needs remain our top priority that will drive all clinical and financial decisions. Summit Pointe is committed to "Making Life Works" for its customers.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

SUMMIT POINTE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents - unrestricted	\$15,805,339	\$9,441,401
Accounts receivable, net	1,383,011	962,076
Due from other governmental units	750,973	7,213,117
Prepaid expenses	55,701	54,861
Total current assets	17,995,024	17,671,455
Noncurrent assets		
Cash and cash equivalents - restricted	5,204,040	2,554,614
Capital assets - depreciable, net	1,586,378	1,627,111
Capital assets - land	48,276	13,492
Total noncurrent assets	6,838,694	4,195,217
Total assets	24,833,718	21,866,672
Liabilities		
Current liabilities		
Accounts payable	6,979,083	2,185,617
Deferred revenue	96,049	156,848
Due to other governmental units	1,753,345	1,290,603
Accrued wages and other payroll liabilities	313,515	261,839
Accrued expenditures	216,191	529,871
Total liabilities	9,358,183	4,424,778
Net Assets		
Invested in capital assets, net of related debt	1,634,655	1,640,603
Reserved for community reinvestment	1,257,462	4,178,365
Reserved for risk management	4,759,620	4,798,113
Unrestricted	7,823,798	6,824,813
Total net assets	\$15,475,535	\$17,441,894

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$71,017,467</u>	<u>\$68,047,705</u>	<u>\$644,489</u>	(\$2,325,273)	\$3,488,729
General revenues					
Transfers in from affiliated boards				779,587	3,769,301
Unrestricted investment earnings				220,147	185,778
Restricted investment earnings				<u>28,049</u>	<u>23,669</u>
Total general revenues and contributions				<u>1,027,783</u>	<u>3,978,748</u>
Change in net assets				(1,297,490)	7,467,477
Net assets - beginning of year				17,441,894	10,169,962
Prior period adjustment				<u>(668,869)</u>	<u>(195,545)</u>
Net assets - end of year				<u>\$15,475,535</u>	<u>\$17,441,894</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

SUMMIT POINTE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
Assets		
Cash And Investments - Unrestricted	\$15,805,339	\$9,441,401
Cash And Investments - Restricted	444,420	542,777
Accounts Receivable, Net	1,383,011	962,076
Due From Other Governmental Units	750,973	4,459,942
Prepaid Expenses	55,701	54,861
Total Assets	<u>\$18,439,444</u>	<u>\$15,461,057</u>
Liabilities		
Accounts Payable	\$6,979,083	\$2,185,617
Due To Other Fund	-	33,101
Deferred Revenue	96,049	156,848
Due To Other Governmental Units	1,753,345	1,290,603
Accrued Wages & Other Payroll Liabilities	313,515	261,839
Accrued Expenditures	216,191	529,871
Total Liabilities	<u>9,358,183</u>	<u>4,457,879</u>
Fund Balance		
Reserved For Prepaid Expenses	55,701	54,861
Reserved For Community Reinvestment	1,257,462	4,178,365
Unreserved	<u>7,768,098</u>	<u>6,769,952</u>
Total Fund Balances	<u>9,081,261</u>	<u>11,003,178</u>
Total Liabilities And Fund Balances	<u>\$18,439,444</u>	<u>\$15,461,057</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Total fund balance - governmental funds	\$9,081,261
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital assets	3,761,363
Deduct: Accumulated depreciation	(2,126,709)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted for in the internal service fund	4,759,620
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Net assets of governmental activities	<u><u>\$15,475,535</u></u>
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The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

REVENUES	General Fund	
	2004	2003
State Grants		
Capitation Revenue		
Medicaid	\$56,632,217	\$56,651,023
General Fund	6,264,251	6,873,834
Adult Benefit Waiver	843,544	-
MI Child	22,751	20,237
Total Capitation Revenue	63,762,763	63,545,094
Consumer Run Recovery Center	73,437	
Respite -Tobacco Tax	31,185	11,020
PAS / ARR Grant	56,903	39,665
Total State Grants	63,924,288	63,595,779
Federal Grants		
PATH/Housing Assistance	45,120	42,399
MIFPI - Wraparound	46,635	41,745
Respite Services	12,307	-
Juvenile Justice	31,800	-
HUD	72,920	69,815
PAS / ARR Grant	170,707	118,996
Total Federal Grants	379,489	272,955
Contributions - Local Units		
County Funding	265,000	265,000
Total Contributions - Local Units	265,000	265,000
Earned Contracts and Other Revenue		
Other Grants	275,344	660,547
Contract Revenue	2,185,003	1,691,733
Net Patient Service Revenue	1,407,944	1,310,093
Interest Income	220,147	185,778
Rent Income	134,930	170,130
Other	120,196	1,042,547
Total Earned Contracts and Other Revenue	4,343,564	5,060,828
Total Revenues	68,912,341	69,194,562

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
EXPENDITURES		
Health & Welfare - Mental Health		
Inpatient	\$1,821,430	\$1,896,765
Residential	4,976,662	5,460,579
Contract Programs	924,206	730,296
Support And Other Services	5,037,117	3,402,645
Salaries and Fringes	5,637,224	5,243,671
Clinical Contracts	1,699,085	1,792,027
Client Support	2,438,785	2,304,453
Contract Consultants	4,408,281	2,731,972
Community Education	256,076	534,673
Employee Development	577,268	370,184
Facilities	1,005,911	914,605
General and Administrative	373,961	407,838
Local Funds Paid To DCH	1,110,749	1,110,749
Medicaid Supports & Services - Affiliates	40,037,017	37,978,097
Miscellaneous	97,336	113,741
Debt Service	-	204,000
Small Equipment	153,920	167,233
Capital Outlay	456,490	-
Total Expenditures	<u>71,011,518</u>	<u>65,363,528</u>
Excess Of Revenues Over Expenditures	(2,099,177)	3,831,034
Other Financing Sources (Uses)		
Operating Transfers In (Out) - From Affiliated Boards	739,186	1,600,562
Operating Transfers In (Out) - From Internal Service Fund	<u>106,943</u>	<u>(1,426,027)</u>
Excess Of Revenues Over (Under) Expenditures And Other Sources And Uses	(1,253,048)	4,005,569
Fund Balance, October 1	11,003,178	7,193,154
Prior Period Adjustment	<u>(668,869)</u>	<u>(195,545)</u>
Fund Balance, September 30	<u>\$9,081,261</u>	<u>\$11,003,178</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net change in fund balances - total governmental funds (\$1,253,048)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Add:	Capital outlay	456,490
Deduct:	Depreciation expense	(462,439)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The net revenue (expense) of the fund attributable to those funds is
reported with governmental activities.

Add:	Interest income from governmental internal service fund	28,049
Add:	Transfers in from affiliated boards	40,401
Less:	Transfers out to general fund - abatement	(106,943)

Change in net assets of governmental activities (\$1,297,490)

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Assets		
Cash And Cash Equivalents	\$4,739,921	\$2,011,837
Due From Other Funds	-	33,101
Due From Other Governmental Units	19,699	2,753,175
Total Assets	<u>\$4,759,620</u>	<u>\$4,798,113</u>
Net Assets		
Restricted	<u>\$4,759,620</u>	<u>\$4,798,113</u>
Total Net Assets	<u>\$4,759,620</u>	<u>\$4,798,113</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Non-Operating Revenue		
Interest Income	\$28,049	\$23,669
Operating Transfers In (Out)		
Operating Transfers In - General Fund	-	1,426,027
Operating Transfers In - Affiliated Boards	40,401	2,168,739
Operating Transfers Out - Abatement	(106,943)	-
Total Operating Transfers In (Out)	(66,542)	3,594,766
Change in Net Assets	(38,493)	3,618,435
Net Assets, Beginning of Year	4,798,113	1,179,678
Net Assets, End of Year	<u>\$4,759,620</u>	<u>\$4,798,113</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Adjustment To Reconcile Net Income		
To Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Funds	\$33,101	(\$33,101)
Due From Other Governmental Units	2,733,476	(2,753,175)
Increase (Decrease) In:		
Due To Other Funds	-	(70,083)
Net Cash Provided (Used) From Operating Activities	2,766,577	(2,856,359)
Cash Flows From Investing Activities		
Interest Revenue	28,049	23,669
Cash Flows From Capital And Related Financing Activities		
Operating Transfers In	40,401	3,594,766
Operating Transfers (Out) - Abatement	(106,943)	
Total Cash Flows From Capital And Related Financing Activities	(66,542)	3,594,766
Net Increase In Cash And Cash Equivalents	2,728,084	762,076
Cash And Cash Equivalents, Beginning of Year	2,011,837	1,249,761
Cash And Cash Equivalents, End of Year	<u>\$4,739,921</u>	<u>\$2,011,837</u>
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Summit Pointe (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

Reporting Entity

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Calhoun who meet eligibility and other criteria. As the community mental health services provider for Calhoun County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest. Operations are funded by grants from federal and state governments, County appropriations, and local funds.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Summit Pointe
Notes To The Financial Statements

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the full accrual basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Summit Pointe
Notes To The Financial Statements

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of the Medicaid Specialty Supports and Services Contract and the State General Fund Contract revenues.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Summit Pointe
Notes To The Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan, and other Community Mental Health Boards.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Summit Pointe
Notes To The Financial Statements

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	3-7
Computers	2-5
Automobiles	5
Buildings and Improvements	10-30
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the master contracts with DCH.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for community reinvestment, compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility. The Authority is not billed for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, the Authority incurred expenditures in excess of the amounts appropriated as shown on the schedule in the back of this report as unfavorable variances. The Authority used prior year Medicaid savings to cover excess expenditures to ensure stability of benefits for its customers and plan members.

3. DETAIL NOTES ON ALL FUNDS

A. Cash And Investments

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

Cash and Investments	2004	2003
Petty Cash	\$775	\$835
Checking, Savings, & Money Market Accounts	10,215,191	4,734,810
Mutual Funds	2,100,604	3,060,370
Government Bonds	410,577	575,000
Federal Home Loan Bank Bonds	2,500,000	1,925,000
Certificates of Deposit	5,782,232	1,700,000
Total	\$21,009,379	\$11,996,015

At September 30, 2004 the Authority's carrying amount of deposits was \$21,007,829 and the bank balance was \$21,322,179. The difference between the carrying amount and the bank balance is due to outstanding deposits and checks. Of this bank balance, \$2,280,000 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

In accordance with GASB Statement 3, investments are classified into three categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the Authority or its agent in the Authority's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name).

Summit Pointe
Notes To The Financial Statements

Investment	Category 1	Category 3	Carrying Amount	Market Value
Certificates of Deposit	\$5,782,232	-	\$5,782,232	\$5,782,232
Mutual Funds	-	\$2,100,604	2,100,604	2,100,604
Federal Home Loan Bank Bonds	-	2,500,000	2,500,000	2,500,000
Government Bonds	-	410,577	410,577	410,577

Cash has been restricted for future payment of the compensated absences liability in the amount of \$444,420. These restricted assets are held in a separate cash account with local financial institutions.

Cash and Investments in the Internal Service Fund have been restricted in the amount of \$4,759,620 for the expected future risk corridor requirements of the MDCH contract.

B. Accounts Receivable

Accounts receivable represents amounts due from third party payers, clients, and others for services rendered, advance deposits, and refunds. Amounts are stated net of allowances for doubtful accounts.

C. Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From:	2004	2003
State of Michigan - OBRA	\$59,217	\$59,428
State of Michigan - Wraparound	14,991	17,342
State of Michigan - PATH/Homeless Housing	9,893	12,712
State of Michigan - Juvenile Justice	7,129	9,895
State of Michigan - Consumer Run Recovery Ctr.	42,171	-
State of Michigan - DCH	95,557	-
State of Michigan - Respite	4,615	-
State of Michigan - MRS Education	7,587	-
State of Michigan HUD Grant	11,709	-
County of Calhoun	132,500	132,500
Other Mental Health Boards	365,604	6,981,240
Totals	\$750,973	\$7,213,117

Summit Pointe
Notes To The Financial Statements

D. Prepaid Expenses

Prepaid expenses at September 30th represent payments for the following expenses that will benefit future periods:

Prepaid Expenses	2004	2003
Insurance	\$50,404	\$47,313
Other	5,297	7,548
Total	\$55,701	\$54,861

E. Capital Assets

Capital assets activity for the year ended September 30, 2004 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Equipment & Furnishings	\$292,799	\$36,359	-	\$329,158
Buildings & Improvements	2,274,268	57,714	-	2,331,982
Computers	724,314	327,633	-	1,051,947
Land	13,492	34,784	-	48,276
Sub-total	3,304,873	456,490	-	3,761,363
Accumulated Depreciation	(1,664,270)	(462,439)	-	(2,126,709)
Totals	\$1,640,603	(\$5,949)	-	\$1,634,654

Depreciation expense in the amount of \$462,439 was charged to Health and Welfare – Mental Health Program.

F. Deferred Revenue

Deferred revenue at September 30th represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2004	2003
Unearned Local Contribution	-	\$35,741
General Fund Carryforward	\$96,049	119,428
Other	-	1,679
Total	\$96,049	\$156,848

Summit Pointe
Notes To The Financial Statements

G. Due To Other Governmental Units

Due to other governmental units as of September 30th, consist of the following:

Due To	2004	2003
State Of Michigan – DCH Cost Settlement	\$1,485,996	\$740,914
State and Community Inpatient	267,349	359,689
Other	-	190,000
Total	\$1,753,345	\$1,290,603

H. Accrued Wages And Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

I. Accrued Expenditures

This liability represents accrued FICA, Medicare, retirement, and unemployment expenses, related to salaries and wages payable as of September 30th, amounts withheld from employee's paychecks but not yet remitted to the appropriate governmental unit, and accrued compensated absences as follows:

Accrued Expenditure	2004	2003
Pension Payable	\$78,512	\$383,163
MESC Payable	29,806	34,077
Flexible Spending Withholding Payable	15,558	21,550
Accrued Compensated Absences Payable	87,046	87,046
Other	5,269	4,035
Totals	\$216,191	\$529,871

J. Leases

Summit Pointe has entered into two operating leases for the use of two buildings. Both leases were entered into on December 1, 1996. The terms of both leases call for 240 equal monthly payments of \$16,700 and \$6,465. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

Summit Pointe
Notes To The Financial Statements

The following is a schedule of future minimum rental payments required under the above operating leases that have initial or remaining noncancelable lease terms as of September 30, 2004:

Year Ending September 30 th	Minimum Payments
2005	\$277,980
2006	277,980
2007	277,980
2008	277,980
2009	277,980

K. Net Assets

Reserves

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund (\$4,759,620) which has been set aside to fund the net uninsured exposure of potential shortfalls of the Medicaid Specialty Supports and Services Contract and the State General Fund Contract revenues.

Net assets have also been reserved for the amount of Medicaid Savings realized from the Michigan Department of Community Health's Managed Specialty Supports and Services Contract. As of September 30, 2003, this amount was \$1,257,462 and must be used according to the Authority's reinvestment strategy in fiscal year 2005.

4. OTHER INFORMATION

A. Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

B. Fund Balance Reserves

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

C. Pension Plan

The employees of the Authority are covered under a defined contribution (401 k) retirement plan. Each employee is eligible to be a member of this plan after one year of service. The plan provides for normal retirement at age 65. Early retirement is available after age 55.

When early or normal retirement age is reached the vesting percentage automatically is 100%. The vesting percent will also become 100% if the plan terminates. If an employee leaves the job before age 65, dies, or becomes disabled, vesting will be based on the following schedule:

Years of Participation	Vested Percentage
Less than 1	0
More than 1	100

Each member may direct up to \$13,000 of his or her compensation to the plan on a pre-tax basis. The maximum percentage may vary from year to year because it is based on the average of the contributions made by all employees. Salary deferrals may not be distributed to the employees before they reach age 59 1/2 except for death, disability, termination of employment, or hardship.

The Authority will contribute to the plan, on the employee's behalf, a matching contribution equal to \$.60 for each \$1.00 of salary deferrals made by the employee up to a maximum contribution for each plan year of 5% of the employee's compensation for the plan year.

The Authority has no additional liability beyond these contributions.

D. Risk Management

Michigan Municipal Risk Management Authority

The Authority is exposed to various risks of loss related to theft of, damage to, and the destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further described in these notes.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

Summit Pointe
Notes To The Financial Statements

As a member of this pool, The Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds The Authority's limits, all further payments for such loss are the sole obligation of The Authority. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of The Authority is the sole obligation of The Authority.

Summit Pointe's coverage limits are \$15,000,000 for liability and \$1,500,000 for vehicle physical damage.

Internal Service Fund

The Authority authorized the establishment of an internal service fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program Contract and the State General Fund Contract within the established risk corridor. These contracts provide for the use of Department of Community Health funding for the establishment of Internal Service Funds.

Expenditures from this fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

E. Compensated Absences

The Authority's policy allows employees to accumulate up to 40 hours of scheduled time off in addition to their annual accrual. Any excess accumulation shall be forfeited. Amounts accumulated are to be paid to an employee and recognized as an expense either when vacations are actually taken or upon termination of employment. At September 20, 2004 the vacation pay liability was \$61,974.

The Authority's policy allows employees 48 hours of unscheduled time off per year. Employees under a union agreement may carry these hours into future years, but no more than 112 hours may be accumulated at any one time. Amounts accumulated are to be paid to an employee and recognized as an expense when time is taken. Upon termination of employment, employees are paid for their unused time on a pro-rated basis based on their years of service. At September 30, 2004 the unscheduled time off liability was \$25,072.

The amount of the compensated absences liability recognized in the general fund is equal to the amount estimated to be paid during the 90 days immediately following year-end.

F. Prior Period Adjustments

Prior period adjustment in the amount of \$668,869 consists of amounts received from affiliate boards during the year ended September 30, 2003. These amounts were originally recorded as revenue (transfers in) in that year. However, these amounts should be subsequently returned to the Department of Community Health as part of the cost settlement for fiscal year 2003. Consequently, they should have been recorded as a liability at the time they were originally received.

G. Incurred but Not Reported Liabilities

Health claims and health claims payable include estimates of obligations for health care services that have been rendered on behalf of members for which claims have either not yet been received or processed. Claim reserves for health costs incurred but not reported are estimated using generally accepted actuarial methods and in accordance with Actuarial Standards of Practice promulgated by the Actuarial Standards Board, the committee of the American Academy of Actuaries that establishes the professional guidelines and standards for actuaries to follow.

The actuarial models used in estimating reserves consider factors such as historical data adjusted for payment patterns, cost trends, service and benefit mix, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, and other relevant factors.

The total amount of the incurred but not reported liabilities included in this report is \$2,204,700.

Summit Pointe
Notes To The Financial Statements

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REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2004

REVENUES	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
State Grants				
Capitation Revenue				
Medicaid	\$56,145,747	\$56,761,870	\$56,632,217	(\$129,653)
General Fund	7,100,000	6,303,545	6,264,251	(39,294)
Adult Benefit Waiver	-	873,709	843,544	(30,165)
MI Child	18,000	18,000	22,751	4,751
Total Capitation Revenue	63,263,747	63,957,124	63,762,763	(194,361)
Respite - Tobacco Tax	-	-	31,185	31,185
Consumer Run Recovery Center	75,000	75,000	73,437	(1,563)
PAS / ARR Grant	50,050	50,648	56,903	6,255
Total State Grants	63,388,797	64,082,772	63,924,288	(158,484)
Federal Grants				
PATH/Housing Assistance	51,310	45,210	45,120	(90)
MIFPI - Wraparound	50,000	50,000	46,635	(3,365)
Respite Services	12,307	12,307	12,307	-
Juvenile Justice	40,000	40,000	31,800	(8,200)
HUD	71,333	71,333	72,920	1,587
PAS / ARR Grant	150,150	151,945	170,707	18,762
Total Federal Grants	375,100	370,795	379,489	8,694
Contributions - Local Units				
County Funding	265,000	265,000	265,000	-
Total Contributions - Local Units	265,000	265,000	265,000	-
Earned Contracts and Other Revenue				
Other Grants	241,925	241,925	275,344	33,419
Contract Revenue	2,141,242	2,141,242	2,185,003	43,761
Net Patient Service Revenue	1,828,887	1,332,816	1,407,944	75,128
Interest Income	172,000	172,000	220,147	48,147
Rent Income	171,811	171,811	134,930	(36,881)
Other	87,690	87,690	120,196	32,506
Total Earned Contracts and Other Revenue	4,643,555	4,147,484	4,343,564	196,080
Total Revenues	68,672,452	68,866,051	68,912,341	46,290

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
EXPENDITURES				
Health & Welfare - Mental Health				
Inpatient	\$1,955,824	\$1,955,824	\$1,821,430	\$134,394
Residential	4,534,119	5,541,469	4,976,662	564,807
Contract Programs	774,790	774,790	924,206	(149,416)
Support and Other Services	3,952,018	4,959,368	5,037,117	(77,749)
Salaries and Fringes	5,493,721	5,493,721	5,637,224	(143,503)
Clinical Contracts	1,973,700	1,973,700	1,699,085	274,615
Client Support	2,771,127	2,771,127	2,438,785	332,342
Contract Consultants	2,886,514	3,590,278	4,408,281	(818,003)
Community Education	317,000	317,000	256,076	60,924
Employee Development	433,546	433,546	577,268	(143,722)
Facilities	1,532,093	1,532,093	1,005,911	526,182
General and Administrative	511,890	511,890	373,961	137,929
Local Funds Paid To DCH	1,110,749	1,110,749	1,110,749	-
Medicaid Supports And Services - Affiliates	39,808,069	39,876,548	40,037,017	(160,469)
Miscellaneous	117,350	117,350	97,336	20,014
Small Equipment	(489,713)	(489,713)	153,920	(643,633)
Capital Outlay	350,000	400,000	456,490	(56,490)
Total Expenditures	68,032,797	70,869,740	71,011,518	(141,778)
Excess Of Revenues Over Expenditures	639,655	(2,003,689)	(2,099,177)	(95,488)
Other Financing Sources (Uses)				
Operating Transfers In (Out) - From Affiliated Boards	-	-	739,186	739,186
Operating Transfers In (Out) - From Int.Service Fund	-	-	106,943	106,943
Excess Of Revenues Over (Under) Expenditures And Other Sources And Uses	639,655	(2,003,689)	(1,253,048)	750,641
Fund Balance, October 1	11,770,841	17,571,465	11,003,178	(6,568,287)
Prior Period Adjustment	(3,741,592)	(5,167,619)	(668,869)	4,498,750
Fund Balance, September 30	\$8,668,904	\$10,400,157	\$9,081,261	(\$1,318,896)

The notes to the financial statements are an integral part of this statement.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Summit Pointe
Battle Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Summit Pointe as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Summit Pointe's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Summit Pointe's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated January 28, 2005.

This report is intended for the information of the audit committee, management, others within the organization, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 28, 2005



MANAGEMENT LETTER

Board of Directors
Summit Pointe
Battle Creek, Michigan

In planning and performing our audit of the financial statements for Summit Pointe for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 28, 2005 on the financial statements of Summit Pointe.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 28, 2005

Perform a Fraud Risk Assessment

In light of the wave of notorious frauds involving large organizations in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in organizations with 10,000 or more employees.

Whereas the highly publicized frauds at large public organizations like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that Summit Pointe (the Authority) perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.

Summit Pointe
Management Letter

- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.

Summit Pointe
Management Letter

- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of Work Performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriation of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Accounts Payable

During our audit we found that the detailed accounts payable ledger did not agree with the balance in the accounts payable account shown in the financial statements. We recommend that management perform periodic reconciliations to make certain that the detailed accounts payable list agrees with the corresponding account in the financial statements.

Summit Pointe
Management Letter

Review Payroll Records for Unusual Matters

Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.